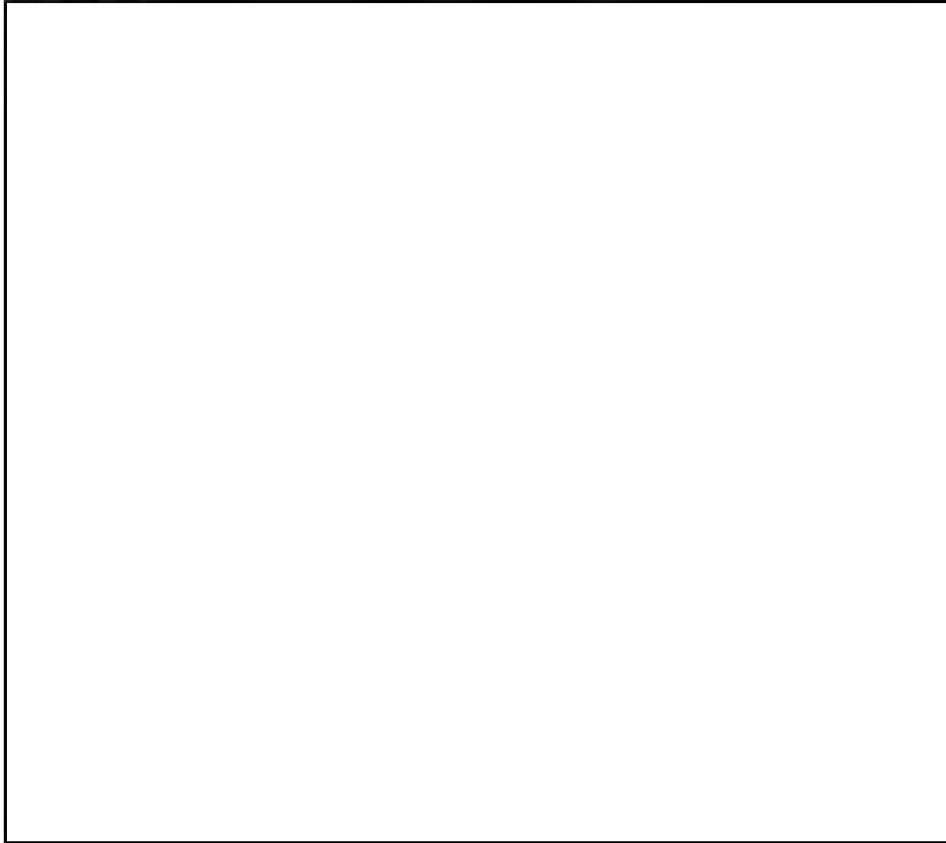


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MEMORANDUM

SUBJECT: The European Communities and the
Energy Crisis

Note

This memorandum briefly reviews the political cross currents in the European Communities on the eve of the EC Council meeting next week that will again address the oil problem. As is frequently the case in the EC, consideration of this problem, critical though it is, has become enmeshed in other community issues--notably, the dispute between Britain and West Germany over the projected Regional Development Fund. Quite apart from this complication, however, the member states remain far from a consensus

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on a unified approach. Many of them are busily seeking bilateral deals with Arab producers and all of them are uncertain how much cooperation they want with each other or with the US and Japan. The EC countries that have been invited by the President to a conference of consumers in Washington on February 11 are almost certain to attend, but prospects are not now bright that they will participate with a common point of view.

1. The Council of Ministers of the European Communities (EC) meets on January 14 to resume consideration of an EC approach to the energy crisis. The Council has failed to implement any of the recommendations on energy made by the EC leaders at the summit in Copenhagen last month--at least in part because of the dispute between Britain and Germany over the establishment of an EC Regional Development Fund. The EC Commission has again called, however, for community solidarity and prior consultation between members on matters concerning energy. It has also proposed to the Council that the community respond favorably to the US proposal for an energy action group (EAG).

2. The impasse over the Regional Fund has arisen because Germany--the largest potential contributor--wishes to limit the Fund to an amount far below what the Heath government believes it must have to demonstrate at home that the British can receive tangible benefit from community membership. Bonn has used the regional policy issue to support its argument that the EC must institute better control of its spending. The Germans are also piqued that they are constantly being asked in effect to be "paymasters" of the community without reciprocal demonstrations of EC solidarity in matters of great interest to them, such as energy policy.

3. Germany is now prepared to make some concessions--principally to provide a larger share to Britain by redefining the regions eligible to draw on the Fund. However, should this still be unacceptable to the British, London may continue to link progress on a community approach to the energy situation to a resolution of the regional question. Moreover, even if the regional dispute is resolved, it is unlikely that the Council will adopt any farreaching energy measures, given the differing situations the members face and their sharply divided counsels.

4. As a result of the Arabs' easing of delivery cutbacks, European concern over oil shortages has greatly declined in the past few weeks--only to be replaced by growing alarm over the impact of escalating prices on the oil-import bill. While horrendous for all, the rising costs will have varying effects on balance of payments positions

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and rates of inflation. Thus, while the need for EC arrangements on oil sharing has perhaps become less pressing, agreement on a common energy policy may now have to cope with the even more difficult problem of achieving agreement on financial solidarity.

5. More important, however, the EC countries remain uncertain whether a national, regional, or international approach to the energy problem will best serve their individual and common interests. To some extent virtually all the EC members are indulging in each approach--or "playing in every game going," [redacted]

25X6 [redacted] Those, like Britain and France, who feel they have strong national cards to play--such as promises of arms deliveries--show no inclination to exercise restraint on bilateral arrangements while multilateral agreements are negotiated. Those members who stand to lose out in a free-for-all competition emphasize the need for enhancing the bargaining position of the community as a whole. Meanwhile, all the members are undecided on the merits of an international approach--that is, cooperation with other large consumers like the US and Japan. Seen by some of the European governments as a threat to an eventual role for Europe in the Middle East, others believe such cooperation might possibly provide a strength-in-numbers that the community itself may not have.

6. The EC Commission, for its part, has sought to push the community towards an international approach--partly because this might force the Nine to forge a common position among themselves, and partly because it is convinced that such cooperation best guarantees the filling of Europe's long-range energy needs. The guidelines the Commission laid down at the Copenhagen summit called for the preparation of comprehensive "balance sheets" covering the community energy situation, examination of the economic and financial repercussions of the energy situation, proposals to ensure the orderly functioning of a common market for energy, equitable measures to limit energy consumption, and a community program on alternative sources of energy.

7. The Commission has now also strongly recommended that the EC favorably consider the EAG proposal. To that

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end it is urging the EC members to consult among themselves prior to contact with the US on EAG. The Commission position has been somewhat strengthened by the US offer--if the EC requests it--to extend to all the member states the President's invitation to the meeting of consumer countries in Washington next month. The US willingness to talk with the community as an entity will also support the Commission's request that the members' response be given "with one voice." Nevertheless, it still seems doubtful that the invitees will come to the meeting with much in the way of a joint position.

8. The French will almost certainly respond positively to the US invitation--the subject being too important for Paris to be able to stand aside. They will nevertheless question the usefulness of such a conference and register their opposition to the development of a "consumers' front" vis-a-vis the producers. Paris will probably stress that the EAG's goals should be long-range and aimed at research into alternatives to oil. The risk for Paris in an EAG is that of isolation from the more cooperation-minded members, since the French have put it clearly on record that they do not intend to slow down their own negotiations with the Arabs pending the outcome of the President's initiative. [redacted]

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25X6 [redacted] the French will try to bring their EC partners together so that the Europeans can face the US and Japan as a cohesive group. The "clarifications" of the US proposal that France will demand will at least in part be a delaying tactic to give Paris time to lobby for its views with the other EC members. One of France's main preoccupations will be to leave the door open to eventual European cooperation arrangements with the Arabs that do not depend on US support.

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10. Most of the smaller EC members, and Germany, are more sincere in their support of the EAG. Unlike France, which may well argue that European participation in the group would be meaningless without a common position, Germany will probably have few compunctions about participating in EAG planning efforts if its EC partners continue to block progress toward community solidarity. For this reason Bonn also prefers utilizing the OECD, where the traditional freedom of expression for individual country views minimizes the political repercussions of intra-EC disagreements. Meanwhile, of course, Bonn pursues its own search for bilateral arrangements with oil producers, most notably in Iran and Saudi Arabia.

11. The long-range prospects for EC energy cooperation may be less bleak than they are in the short term. It is conceivable that balance of payments pressures could bring about a degree of solidarity--both within the community and internationally--that the earlier threat of real oil penny failed to produce. If the economic effects of the oil crisis result in a relatively stronger position for the US, the Europeans may seek financial support from the US. Germany, whose payments position is still fairly promising, might perhaps find similar leverage within the EC.

12. Another inducement to future intra-community cooperation is perhaps contained in the talks which begin next week on a new non-preferential trade agreement between the EC and Iran. Although the situation is quite different at present because Iran is still being courted by many of the EC members, the oil crisis has prompted discussion of an oil-for-trade concessions arrangement.

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Trade is a matter that falls within the jurisdiction of the community and not the individual members. If oil supplies were to become a part of the bargaining, a common EC stance on supplies and pricing would also be required. While the initial talks with Iran may not get into this, the idea of establishing links between oil and trade has long been in the minds of some European officials and may yet come to play a role in the community's relations with oil producers.